

# MOODY'S

## INVESTORS SERVICE

### Rating Update: **Moody's maintains Aa3 on Seattle (WA) Solid Waste Enterprise's revenue bonds; Outlook is stable**

---

Global Credit Research - 03 Oct 2013

#### **Approximately \$119 million of debt outstanding**

SEATTLE (CITY OF) WA SOLID WASTE ENTERPRISE  
Solid Waste  
WA

#### **Opinion**

NEW YORK, October 03, 2013 --Moody's maintains Seattle (City of) WA Solid Waste Enterprise's (Seattle Solid Waste or SSW) Aa3 rating on its revenue bonds. The rating outlook is stable.

#### **SUMMARY RATING RATIONALE**

Seattle Solid Waste's Aa3 rating is supported by its demonstrated historical willingness to raise rates, strong flow control provisions, and access to the City of Seattle's money pool. The rating is further supported by a solid service area, generally lower operating risk profile compared to other solid waste systems, and debt service coverage ratios (DSCR) above 2.0 times (per Moody's calculation) over the last three years compared to 1.6 to 1.7 times over the long term. The above average DSCR over the last three years were due to lower than expected scheduled debt service since certain planned debt increases was delayed. We understand that Seattle Solid Waste is planning to increase debt over the next two years to fund its large capital expenditure program (CIP) and the forecasted substantial increase in debt service could result in material reduction in financial metrics. We also understand SSW is considering various possible actions to strengthen financial metrics compared to those currently forecasted for 2015 and thereafter. Our rating and outlook currently incorporate the assumption SSW will take appropriate actions to ensure financial metrics largely consistent with its historical performance.

SSW's rating also incorporates the low standalone liquidity profile albeit improved over the last three years, large general fund transfers equal to around 10% total revenues, rates that are above some regional peers, and a large CIP.

The stable outlook considers SSW's strong service area, access to the City of Seattle's money pool, and our expectations of DSCR in excess of 1.5 times and internal liquidity of around 60 days cash on hand for 2013 and 2014.

Seattle Solid Waste's rating could be negatively impacted if the CIP incurs substantial cost overruns or if SSW's financial metrics materially drop below its long term historical levels.

In light of the large CIP and associated debt increase, SSW's rating is unlikely to improve over the next few years. However, the rating could be raised if SSW were to complete its CIP and demonstrate on a sustainable basis significantly higher liquidity levels and debt service coverage ratios than compared to its long term historical performance.

#### **DETAILED CREDIT DISCUSSION**

Seattle Public Utilities (SPU) was created in 1997 as a department of the City of Seattle (Aaa/stable) and includes the City of Seattle's water, drainage, wastewater and solid waste services. SSW resides within SPU and is responsible for solid waste collection and disposal and owns and operates two transfer stations. Residential and commercial solid waste collection and disposal activities by SSW are contracted to Cleanscapes and Waste Management under contracts that expire in 2017 and 2019, respectively. The SPU also has a four year contract with Rabanco, LTd to handle recycling and Cedar Grove Composting for yard waste processing. Long haul transportation service to landfills from the transfer stations is provided by Washington Waste Systems (WWS), a subsidiary of Waste Management under an existing contract that expires in 2028 but the SPU has an opt-out date in 2019.

Legal Security: The SSW's bonds have a pledge of net revenues of Seattle Solid Waste, which requires that SSW set rates to maintain 1.25 times debt service coverage on a pre city tax basis. The additional bonds test similarly requires that rates be set to maintain 1.25 times debt service coverage on a pre city tax basis. Furthermore, SSW bonds have a pooled debt service reserve sized to maximum annual debt service. Currently, the debt service reserve is backed by a \$5.9 million MBIA Insurance Corporation (B3, positive) surety policy (and reinsured by National Public Finance Guarantee Corp (Baa1, positive)) and \$4.9 million in cash.

Interest Rate Derivatives: None

#### KEY RATING FACTORS

##### WILLINGNESS TO RAISE RATES IS A KEY STRENGTH BUT RATES ARE ABOVE SOME PEERS

The City of Seattle demonstrated willingness to raise rates is an important credit strength. Solid waste rates have increased annually since 2007 including a large 27% increase in 2009 to correspond to more expensive waste collection contracts that started in April 2009. Given the SSW's large capital program, future rate increases are forecasted and our rating incorporates the assumption that the City of Seattle will continue to raise rates as necessary.

While the willingness to raise rates is strong, SSW's average monthly bills is higher than some of its regional peers such as the City of Tacoma and City of Bellevue. Also, SSW's transfer station rates are higher than those at King County. While this is a weakness, we view the strong service area and flow control mechanism discussed further below as meaningful mitigations.

##### STRONG FLOW CONTROL AND SERVICE AREA REMAIN KEY CREDIT SUPPORTS

SSW provides curbside waste collection through private haulers for residential and commercial customers in Seattle. City ordinance prohibits collection of non-recyclable waste within the city by companies that are not under contract with it. Another city ordinance requires all citizens to subscribe to solid waste collection. Together, these two ordinances create a strong flow control mechanism for the SSW and enable it to secure residential collection fees, which are its largest revenue stream and accounted for 62% of total solid waste revenue in 2012. For commercial customers, Seattle's ordinances and contract provisions require commercial customers to either use the SSW's contracted commercial haulers or self-haul. While businesses may choose to self-haul their waste, most use the contracted commercial haulers. Commercial service represented about 30% of revenues in 2012.

The City of Seattle benefits from a strong regional economy supported by major companies such as Boeing and Microsoft. Wealth levels are fairly high for a large city, with 2006 - 2010 estimated median family income of \$87,987, or 139.7% of the U.S. Employment growth has been steady over the last two years, and the city's seasonally unadjusted unemployment rate of 4.7% (July 2013 preliminary) is below that of the state levels (6.9%) and significantly improved from a 7.1% rate in January 2011. The combination of strong flow control and service area is considered a material strength for SSW.

##### STANDALONE LIQUIDITY REMAINS MODEST THOUGH ACCESS TO CITY'S MONEY POOL REMAINS A KEY EXTERNAL SOURCE OF LIQUIDITY

At year end 2012, unrestricted cash and investments at Seattle Solid Waste was moderate with \$21 million, which is equal to approximately 56 days cash on hand. However, this was a material improvement compared to a low of 10 days cash on hand at the end of 2009 and SSW's minimum target liquidity sized to 20 days of contract payments. While we view SSW's internal standalone liquidity as low for the rating, we also recognize Seattle Solid Waste's access to the City of Seattle's \$1.3 billion money pool, which continues to be an important source of external liquidity support. The City of Seattle pools and invests cash for all city departments. The cash pool operates like a demand deposit account in that all City departments, including SSW, may deposit cash at any time and can also withdraw cash out of the pool without penalty. The City's Director of Finance is also authorized to make loans for a period up to 90 days and these loans bear interest at the cash pool's rate of return. Loans longer than 90 days require approval from the city council. Seattle City Light, Seattle's electric enterprise system, was able to access the money pool in 2001 and 2010 during periods of liquidity stress.

##### DEBT SERVICE COVERAGE RATIOS HAVE IMPROVED OVER THE LAST THREE YEARS

From 2010 through 2012, SSW achieved DSCR above 2.0 times under Moody's calculation, which treats city taxes as an operating expense consistent with other municipal infrastructure issuers. City taxes are sizeable at \$15.5 million (10% of revenue) in 2012 and are subordinated to debt service on SSW's bonds. The pre city tax DSCR is substantially higher averaging 4.7 times over the last three years and this is above SSW's policy target

of 1.7 times and 1.25 times covenant (pre city tax). SSW's DSCRs (post city tax) metrics were a substantial improvement from DSCR of 0.1 times (post city tax) / 1.75 times (pre city tax) in 2009 when SSW's costs substantially increased due to new waste collection contracts and SSW's internal liquidity dropped by over \$10 million to \$3.9 million. The recent historical performance is also above the long term average DSCR of around 1.6 to 1.7 times (post city tax).

For 2013 and 2014, we expect DSCR in excess of 1.5 times (post city tax) and internal liquidity of around 60 days cash on hand. Starting in 2015, SSW's coverage ratios could materially drop to an average of 1.2 times based on SSW's latest forecasts; however, we understand Seattle Solid Waste is considering various possible actions to strengthen financial metrics than currently forecasted for 2015 and thereafter. Our current rating and outlook incorporate a view that SSW will take the appropriate actions to ensure financial metrics consistent with its historical performance.

#### CAPITAL PROGRAM WILL CONTINUE TO ADD SIGNIFICANT AMOUNT OF DEBT TO THE SYSTEM

SSW's CIP through 2017 totals approximately \$160 million and is expected to be financed with a combination of current revenues and an estimated \$140 million of new debt, which represents a more than doubling of \$119 million of debt outstanding at year end 2012. Most of the capital expenditure funds relate to the building of two new transfer stations whose construction is staggered to allow for continuity of operations. The South Transfer Station, the first transfer station, was completed in 2012. The demolition and new construction of the North Transfer Station has started and will be followed by the demolition of the old South Transfer Station.

#### KEY STATISTICS:

Total Unrestricted Cash and Investments, 12/31/12: \$21 million

Solid Waste Tonnage (2012): 715,540

2012 Debt Service Coverage (Moody's): 2.05 times (post city tax)

2012 Debt Service Coverage (Bond Covenant): 3.87 times (pre city tax)

Debt Ratio (2012): 73%

Days Cash on Hand (2012): 56

City of Seattle's Cash and Investment Pool, 2012: \$1.39 billion (\$1.36 billion net of SSW's share)

Solid Waste Revenue Bonds, 12/31/2012: \$119 million

The last rating action was on May 27, 2011 when Moody's rating committee assigned Aa3 long-term ratings to \$47 million of Solid Waste revenue bonds.

#### RATING METHODOLOGY

The Seattle Solid Waste's bond rating was assigned by evaluating factors believed to be relevant to the credit profile of the instrument such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, and iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals. These attributes were compared against other issues both within and outside of the authority's core peer group and their ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

#### REGULATORY DISCLOSURES

Please see Moody's Rating Symbols and Definitions on the Rating Process page on [www.moody.com](http://www.moody.com) for further information on the meaning of each rating category and the definition of default and recovery.

Please see Moody's Ratings Symbols and Definitions on the Rating Process page on [www.moody.com](http://www.moody.com) for further information on the time horizon in which a credit rating action may be after a review or outlook action took place.

Please see ratings tab on the issuer page on [www.moody.com](http://www.moody.com) for the last rating action and the history of the rating. The date on which some ratings were first released goes back to a time before Moody's ratings were fully

digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website [www.moody's.com/disclosures](http://www.moody's.com/disclosures) for further information.

Please see the ratings disclosure page on [www.moody's.com/disclosures](http://www.moody's.com/disclosures) for disclosures on significant Moody's shareholders and on certain relationships between Moody's, its shareholders and/or rated issuers.

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

#### **Analysts**

Clifford J Kim  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

A.J. Sabatelle  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

Chee Mee Hu  
Additional Contact  
Public Finance Group  
Moody's Investors Service

#### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA

**MOODY'S**  
INVESTORS SERVICE

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE**

**VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or

Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.